FISCAL NOTE

Bill #: **SB0411** **Title:** **Annual report on trust land return**

Primary Sponsor: **William Crismore** **Status:** **As introduced**

Sponsor signature Date Dave Lewis, Budget Director Date

Fiscal Summary

	FY2000 Difference	FY2001 Difference
Expenditures:	**$0**	**$0**
Revenue:	**$0**	**$0**
Net Impact on General Fund Balance:	**$0**	**$0**

Yes	No		Yes	No	
	X	Significant Local Gov. Impact	X		Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts

Fiscal Analysis

ASSUMPTIONS:

1. The DNRC currently manages 497,792 acres of classified forestland for the ten land grant beneficiaries. This acreage is made up of 1,172 separate parcels.
2. The DNRC would need to contract the identification of the productivity class for each parcel. Each parcel description will require up to 10 unique combinations of parcel descriptors, e. g., productivity class, forest/non-forest status, and trust association.
3. Contracting costs are not quantifiable at this time, but are estimated to run from $10,000 to $20,000. If this legislation were to pass, the required costs, analysis, and report would be incorporated into DNRC plans to upgrade its current trust land database and its forest management program as proposed in the Executive Budget contained in HB2.

LONG-RANGE IMPACTS:

The nominal rate of return on the trust fund bond pool was 9.8% for the years 1988-1997. In order to match that rate of return from timber harvest off classified forestland, the annual harvest would have to be increased substantially. The estimated rate of return off classified forestland, based on the proposed financial analysis, would be 1.5% - 2.5% at the current time. Given the current policy restrictions, environmental mitigations, old growth set asides, and legal constraints on timber harvests and commercial development, it is likely that the department would be required to sell substantial amounts of classified forestland in order to achieve a rate of return from management of classified forest lands that equals the return from the trust fund bond pool.

TECHNICAL NOTE

1. This proposal could lead to the development of a plan that requires substantially more timber harvest, or a combination of alternative revenue generating activities.
2. If this legislation directed the department to harvest at an accelerated rate for the short-term, then the harvest would favor the current generation of beneficiaries, at the expense of future beneficiaries. This is because 95% of the receipts from common schools sections are not deposited in the permanent fund, but instead are distributed into the general fund and expended.
3. The proposed formula for calculation of return on assets does not take into account the appreciation of either the land asset or the standing timber asset. The value of the growth in value or volume is not considered and underestimates the return from the classified forestlands. Because of this omission in the proposed formula, the conclusions may not be totally accurate.
4. The proposal requests that the returns for each trust land holdings equal the return from the trust fund bond pool. This would lead the department to manage the lands associated with each trust as separate assets. This may lead to inefficient management of these lands. This would result in an inappropriate comparison of pooled bond yields with returns from separate forestlands. In addition, because the department has not targeted previous timber harvests based on trust assignment, standing inventories on individual trusts were not managed to ensure sustainability. The result may be that on a compilation of lands for an individual trust there would be a disproportionate distribution of young cut over stands.
5. By requiring the same return on asset from classified forestlands as from the trust fund bond pool, the assumption is made that the two investments have the same financial risk. If the risk of the two investments is not the same, then the expected returns should not be expected to be the same.